

**GOVERNMENT OF INDIA
DISINVESTMENT
LOK SABHA**

UNSTARRED QUESTION NO:1969

ANSWERED ON:09.03.2001

SUGGESTIONS FROM SCOPE

GADDE RAMAMOCHAN;M.V.V.S MURTHI;SHIVAJI MANE

Will the Minister of DISINVESTMENT be pleased to state:

- (a) whether the Standing Conference of Public Enterprises strongly criticised the indiscriminated privatisations of Public Sector Undertakings being pursued by the Government;
- (b) if so, the reasons and details thereof;
- (c) whether the Government have received any suggestions from SCOPE in this regard;
- (d) if so, the details thereof; and
- (e) the reaction of the Union Government thereto?

Answer

MINISTER OF STATE (INDEPENDENT CHARGE) OF THE DEPARTMENT OF DISINVESTMENT, MINISTER OF STATE IN THE MINISTRIES OF PLANNING, STATISTICS & PROGRAMME IMPLEMENTATION AND MINISTER OF STATE IN THE DEPARTMENT OF ADMINISTRATIVE REFORMS AND PUBLIC GRIEVANCES (SHRI ARUN SHOURIE)

(a) to (d) Yes, Sir. Some newspapers of 20th December, 2001 had reported such views of SCOPE in regard to the privatisation of Public Sector Undertakings. Some major findings of the 'Study on Comparative Performance of Public and Private Sector in India' are given in the Annexure.

(e) The report provides one possible perspective on the issue which has been noted by the government.

Annexure referred to in reply to the parts (a) to (d) of the Lok Sabha unstarred question no.1969 for 9-3-2001 regarding Suggestions from SCOPE by Shri Ram Mohan Gadde, Shri M.V.V.S. Murthi & Shri Shivaji Mane:

a) The public sector in India has performed the task assigned to it, reasonably well, given the constraints. There are aberrations, but all are not of its making. The acquisition and operations of bankrupt private sector companies was, for example, a result of decision imposed on it.

b) The public sector's main objective was socially-focussed, in many cases by the conception of enterprises and in others by their mechanisms. The administered prices were not commercially viable which implied subsidies. Commercial enterprises cannot provide large subsidies and generate high profits.

c) Empirically, the performance of the public sector, seen in its total perspective, is comparable to that of the private sector, although the former's perceived sub-standard performance has received recurrent and flashing limelight. On a rationally comparable basis, the profitability of CPEs more than matches with that of the total private sector.

d) Performance of the public sector in terms of financial parameters has been improving markedly since the onset of the economic reforms programme.

e) It is comparable with the private sector in terms of economic value added (EVA) and return on capital employed (ROCE). The government has recovered during the last three years more than the total capital invested in the form of dividends, interest and taxes.

f) Financial failures have frequently occurred in enterprises controlled and managed by some of the leading business groups and corporate managements applauded for their managements skills, let alone small and medium enterprises. The private sector has been facing tough times with the onset of economic readjustment programme and the onslaught of multinationals. Many have closed down or are sold to MNCs.

g) Beyond financial performance, the private sector owner managements have been frequent and debilitating defaulters to all stakeholders - shareholders, lenders, depositors, vendors, customers and workers.

h) Let alone the workers, even the shareholders have not received a fair deal from the private sector with thousands of companies not

paying dividends defaulting on repayment of deposits and the share prices touching incredible low.

i) Large NPAs damaging the results of financial institutions and banks are indicative of the losses incurred and defaults made by the private enterprise entities. So are the large number of sick units.

j) The overall dividend record of private corporates has been abysmally poor. More than half the number of the listed companies do not pay any dividends. Even EPS of private sector companies, an indicator of profit earning capacity, is low. So is the P/E record - barring a small percentage of star performers.

k) A large number of sick units in the public sector are a legacy of the private sector. The takeover enterprises acquired at the direction of the government from time to time and not adequately supported by the government have badly damaged the image of the public sector.

l) It is universally admitted that there has been very little autonomy in public enterprises. Vital clearances for decisions - from conception to commissioning to current operations - have often been delayed for months, years and even decades. Many turnaround programmes remain non-starters. Apart from the dilatory clearances, there has been marked positive interference.

m) Despite the bureaucratic procedures with the public sector undertakings have had to follow, a high degree of professionalism has taken place with far more focussed and efficient HRD interventions.

n) The public sector has established management and training institutes of which any industrial or service organisation can be proud.

o) The public sector has undertaken more effective R&D effort at the enterprise level.

p) PSUs have attended to the welfare and social dimension of the work force in particular and the community in general in a much more effective manner.

q) Since the onset of the last decade or so, especially since the announcement of the economic reforms programme, public sector has come under scathing and undeserved attacks, which have tended to destabilise it.

r) Undeterred by the changing and highly destabilising pronouncements including those on privatisation and disinvestment, which have created uncertainties and demoralisation, the public sector has produced enough evidence that it marches on to meet the challenges of the new millennium.

s) PSUs after PSUs are working on a new agenda of global competitiveness and have envisioned - even launched - expansion, diversification, modernisation and restructuring programmes. These moves should generate handsome returns.

t) PSUs have also entered and are proposing to enter into strategic alliances and joint ventures within the public sector and between the public sector, on the one hand, and domestic and foreign enterprises, on the other. Some of these plans will expand rather than contract the Indian public sector.

u) Although continuing to be owned by the government, budgetary support, sometimes critical, has been denied to the public sector enterprises.

v) PSUs are not basing their ambitious plans of expansion, diversification and technology upgradation on fiscal support. They are confident of generating surpluses and of mobilising the resources by accessing the market on their own.

w) Since the onset of the economic reforms programme, even the government has taken some positive steps declaring selected CPEs as navaratna and mini-ratnas with some doses of autonomy.

x) The structure, vision, goals and systems of the public sector have gone through a whole reformation. Almost at the threshold of the year 2001, the public sector in India is no longer the public sector of the early 1980s or even the late 1980s.

y) Assured of the freedom to operate under new standards of corporate governance now advocated by professional dispensation, the public sector is confident to be globally competitive.

z) Given the dictates of global competition and need for professional corporate governance, both sectors are slowly but steadily inching towards convergence. Privatisation, as such, is partly a redundant and partly an obsolete concept. There is a need to be innovative in discovering new models of corporate governance.